

# MONTHLY MARKET OUTLOOK:

## India's Economic Snapshot:

### » **The Big Switch: How India's GST 2.0 Is Reshaping Financial Markets :**

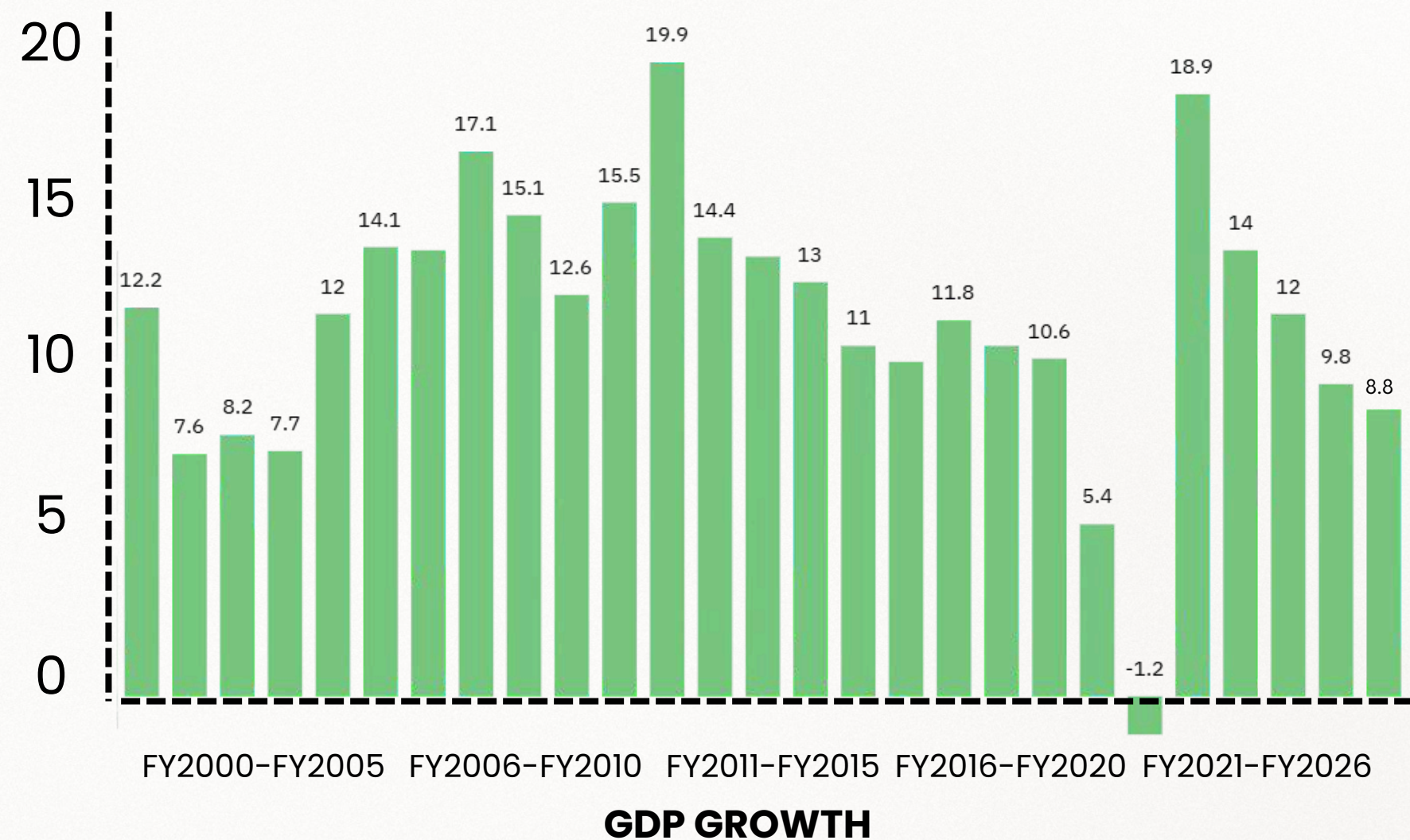
Following the 56th GST Council meeting in early September, India is set for a significant tax overhaul, delivering on promises made in August. The new "GST 2.0" framework, effective September 22, will simplify the tax structure by largely replacing the **12% and 28%** slabs with a two-tier system of **5% and 18%**. A special **40%** rate will apply to "sin goods" and luxury items. This rationalisation is expected to make a wide range of goods cheaper, providing direct relief to consumers and a significant boost to domestic consumption. Essential items like packaged foods, personal care products (shampoo, toothpaste), and medical goods will see their rates reduced, in some cases to **5%** or even nil. GST on consumer durables (ACs, TVs), small cars, and cement has also been cut from **28% to 18%**. In a landmark move, GST on individual health and life insurance policies has been eliminated.

These sweeping changes have had a notable effect on financial markets. The reforms are seen as a strategic measure to stimulate the economy and mitigate the effects of external factors like US trade tariffs. Analysts project that the GST cuts could add to GDP growth and help counteract potential inflationary pressures. Overall, the market's focus has shifted to companies that will benefit from this increase in domestic consumption, reinforcing the resilience of India's domestic-driven economy.

**The benefits of GST may not be fully passed on to consumers—similar to how declines in global crude oil prices have not always resulted in proportional reductions in fuel prices in India.**

## ▶ Navigating Economic Headwinds: Reforms Signal a Resilient Growth Path

While India's Q1 FY26 real GDP growth of **7.8%** was strong, a weak nominal growth of **8.8%** signals underlying concerns, reflected in tepid corporate earnings. These domestic headwinds are now compounded by adverse US tariffs on Indian goods, which threaten to weaken export momentum. In response, the government is embarking on a new wave of transformational reforms to push growth higher. The GST overhaul is a major step to revitalize domestic consumption, while progress on trade deals, easing FDI norms, and deregulation across sectors aims to enhance the business environment and strengthen the economy's resilience against external shocks.



## ► Corporate Earnings in India: Pockets of Strength Amid Inflationary Pressure

In Q1 FY26, India's corporate earnings presented a complex picture: overall growth remains tepid, yet several companies outperforming expectations hint at underlying resilience.

- Overall Trend: Among 38 Nifty 50 firms, year-on-year earnings growth averaged just **7.5%**, reflecting persistent headwinds in domestic and global demand.
- BPCL's Strong Quarterly Show: Bharat Petroleum Corp delivered a net profit of **₹61.24 billion** for **Q1**, exceeding analyst expectations fueled by operational cost savings and robust fuel consumption.
- Lupin's Standout Performance: The pharmaceutical major posted a **52%** increase in consolidated net profit, reaching **₹1,221 crore**, supported by demand across Indian and U.S. markets.
- Broader Recovery from Q4 FY25: Looking back, **Q4** saw a meaningful rebound—1,555 reporting firms delivered **6.6%** profit growth, beating forecasts. Operating metrics and revenues rose at multi-quarter highs, signalling momentum into FY26

**Outlook: While the pace of growth remains modest, the performance of firms like BPCL and Lupin, alongside improving sector-wide operating foundations, suggests that corporate India is gradually regaining its footing."**

## ▶ **India's diesel shipments to Europe surge 137% in August**

In August 2025, India's diesel shipments to Europe skyrocketed by **137%**, reaching 242,000 barrels per day—a clear indication of Europe's scramble for alternatives ahead of the EU's ban in January 2026 on fuels refined from Russian crude. This dramatic increase was driven by both regulatory pressure and refinery disruptions in Europe—most notably, Part of the surge is attributed to Shell's Pernis refinery accelerating scheduled maintenance, resulting in supply gaps that Indian exports helped bridge.

This surge was accompanied by a 73% month-on-month jump, and exports were **124%** above the 12-month average. Vortexa's estimates were similarly striking, with August figures up **166%** year-on-year and 36% above July.

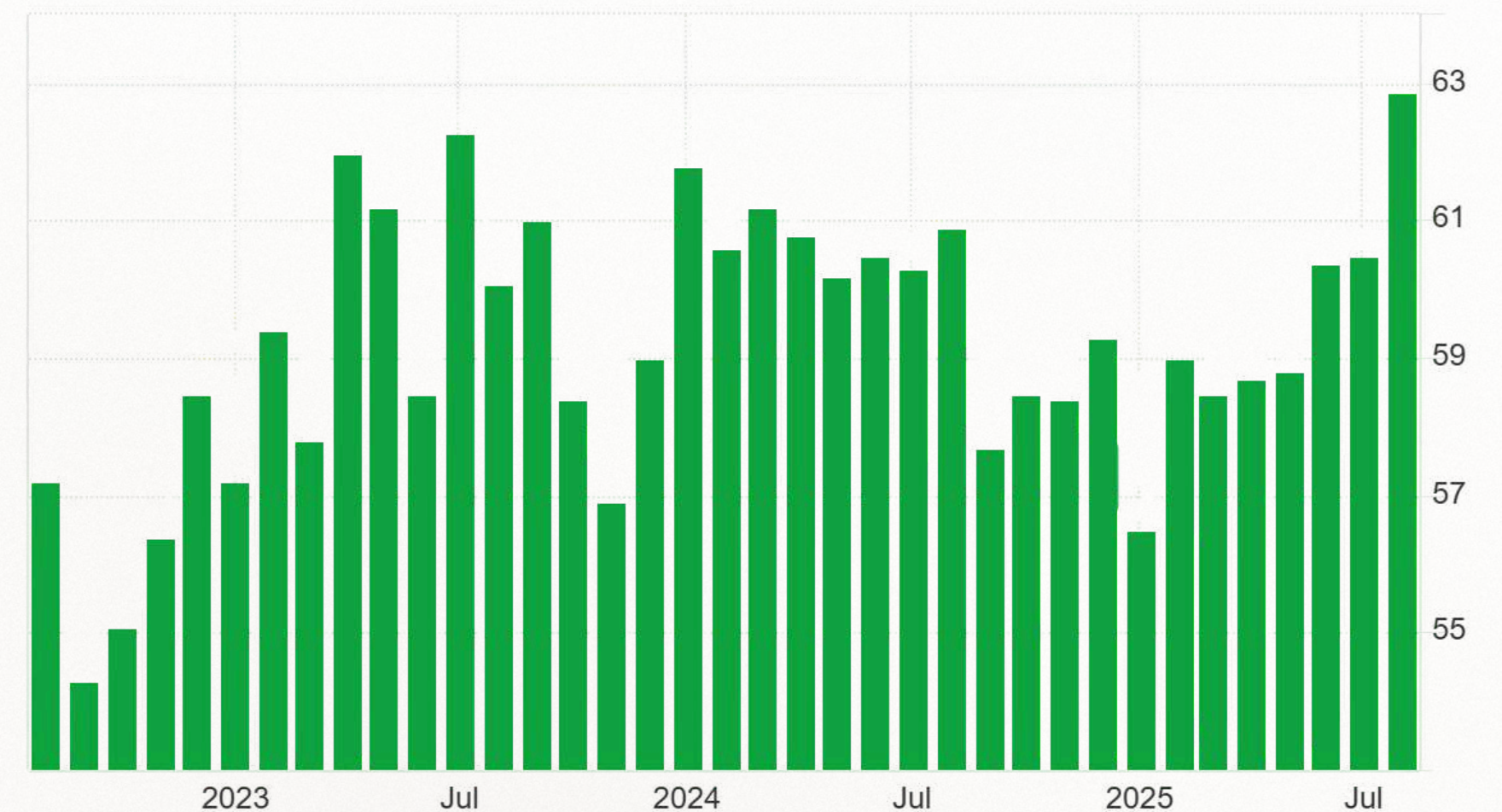
In total, India's diesel exports—including destinations beyond Europe—topped 603,000 barrels per day, marking about a 17% increase from both July and the prior August.

## ▶ **August Trade Shock: U.S. Tariffs Threaten Key Indian Export Sectors**

In August 2025, trade tensions between India and the U.S. escalated sharply as Washington imposed sweeping reciprocal tariffs on Indian exports. On August 7, a blanket **25%** tariff came into effect on most Indian goods, excluding sectors like pharmaceuticals, electronics, energy, and semiconductors. This measure impacted approximately **55%** of India's merchandise exports to the U.S. . The situation worsened when, from August 27, the tariffs doubled—bringing the total burden up to **50%** for key segments such as textiles, gems and jewellery, shrimp, carpets, and machinery, affecting about **\$48 billion** worth of exports . Sectors across labor-intensive hubs (such as Tirupur, Surat, and NCR) are bracing for major disruptions, with factories already halting production and concerns rising over job losses . The Global Trade Research Initiative (GTRI) projects U.S.-bound exports could shrink by up to **40-50%** as a result of these steep duties . In response, the Indian government is drawing up a relief package, offering support such as credit guarantees for SMEs and exporters in affected sector.

## » Services Sector Soars to a 15-Year High, Anchoring Domestic Resilience

While August 2025 was marked by external headwinds, most notably the escalating US trade tariffs, India's economy demonstrated its formidable domestic strength. The services sector, a cornerstone of our economy, posted a record-breaking performance as the HSBC India Services PMI surged to **62.9, its highest level in 15 years**. This expansion was fueled by the fastest growth in new orders in over a decade and a half, signaling robust consumer confidence and a sustained rebound in domestic demand. The ripple effect was evident as firms passed on higher input costs to customers, leading to the sharpest rise in output prices since July 2012, a potential harbinger of future inflationary pressures. This stellar services performance, combined with a strong showing in manufacturing, helped lift the Composite PMI to a **17-year** high, solidifying the narrative of India's internally-driven growth story. This resilience is a powerful counter-narrative to the FPI outflows and trade tensions, underscoring that India's economic momentum is fundamentally rooted in its vibrant domestic market



Indian Services Sector PMI

## ► Sector Growth:

**Telecom** – sector reported a profit of INR12b in 1QFY26 compared to a loss of INR5b in 1QFY25.

**Cement** – sector saw a strong rebound after a weak year, with earnings up 46% YoY. Sales rose 14% and EBITDA jumped 39%, reflecting better demand and improved pricing.

**Oil and Gas** – sector contributed significantly during the quarter, with PAT growth of 32% YoY, mainly led by OMCs.

**Metals** – sector contributed positively to the quarter's earnings, with PAT growth of 9% YoY over a soft base of 1QFY25. Growth was also boosted by a strong performance of ferrous companies, driven by a healthy operating performance.

**BFSI** – The banking sector posted a muted 1Q performance with business momentum moderating. Net interest margins (NIMs) contracted for both private and public banks. Contrarily, NBFCs posted healthy earnings growth of 16% YoY, driving the overall earnings growth in 1Q.

**Capital Goods** – companies reported a healthy quarter with PAT growth of 15% YoY, led by healthy order momentum and execution.

**Healthcare** – sector reported a muted quarter with only 6% YoY earnings growth. While sales growth was stable for the domestic formulation segment, US sales performance was muted. Hospital companies within Nifty-500 reported robust earnings growth of 30% YoY.

**Technology** – IT services companies reported a challenging quarter, with PAT growth of 7% YoY. Tier-1 companies remained weak due to lower-than-expected growth and subdued demand.

**Automobile** – Auto sector earnings declined 1% YoY amid weak demand. However, policy support like tax cuts, better liquidity, and lower interest rates may boost future growth.

**Consumer** – sector reported a sequentially stable quarter, with volume growth across most companies limited to low to mid-single digits. Rural demand continues to outpace urban demand, though encouraging trends are also emerging in urban markets.

## CAPEX UPDATE

### ► Public Spending Surge: Centre's Aggressive Capex Fuels Economic Growth:

- Cabinet approves ₹**300** bn payout to state oil firms to offset LPG subsidy losses.
- Cabinet approves ₹**21.6** bn for 46-km Four-lane Marakkanam-Puducherry highway.
- Cabinet approves ₹**15.1** bn Greenfield Kota-Bundi Airport with 2 mn annual passenger capacity.
- Government expands rare earth magnet scheme to ₹50 bn Quadruples annual target to 6000 MT.
- Commerce Ministry readies ₹**250** bn export Promotion Mission support Schemes over six years.

### ► Private Capex in Focus: A Tale of Caution and Strategic Investment:

- Renault to acquire Nissan's **51%** stake in JV manufacturing plant in Chennai, To expand Indian sales and export.
- Adani Defence & Aerospace to acquire MRO provider Indamer Technics vis JV Indamer operates a state of the art 30 acre MRO facility.
- Adani Power secure Lol to supply 2,274 MW at ₹6.075/KWh in Bihar. It will be met from a 2400 MW to be set up in Bihar.
- HUL aims to demerge and list Kwality Wall's by end-FY26, Ice Cream business expected to double in six in 2-3 yeras.
- IHCL to acquire 51% stake in ANK Hotels for ₹1.1 bn and Pride Hospitality for ₹0.9 bn, Signs Brij Hospitality Distribution Deal, Expands IHCL's portfolio to over 550 hotels with ~55,000 rooms.
- Airtel's Xtelify launches 'Airtel Cloud' - a sovereign, telco-grade platform for Indian businesses .Platform is built to handle up to **1.4** bn transactions per minute.

## GLOBAL MARKET OUTLOOK:

### » Global Monetary Policy Divergence: A Tale of Two Tides

In August 2025, global central banks continued to chart divergent courses, reflecting the differing economic realities of their respective regions. The U.S. Federal Reserve, with its primary focus on battling persistent inflation, held its key interest rates steady at **5.50%**. This "hawkish pause" came as U.S. inflation remained "somewhat elevated" at **3.3%**, prompting the Fed to maintain a "higher for longer" stance to ensure prices return to its **2%** target.

In contrast, the European Central Bank (ECB) signaled a shift in its policy focus. After a period of aggressive tightening, the ECB kept its rates unchanged as inflation in the Eurozone successfully fell to the **2%** target in August for the first time in two years. This achievement allows the ECB to pause and prioritize supporting fragile economic growth across the bloc. Similarly, the Bank of England went even further, cutting its Bank Rate by **25 basis** points to **4.75%** in a pre-emptive move to stimulate an economy facing a technical recession and a weaker domestic outlook.

This divergence in policy paths—with the U.S. focused on containing inflation and Europe and the UK pivoting toward supporting growth—has significantly influenced currency markets and capital flows. The widening interest rate differential has strengthened the U.S. dollar, while currencies like the Euro and the Pound have come under pressure, highlighting the uneven nature of the global economic recovery.



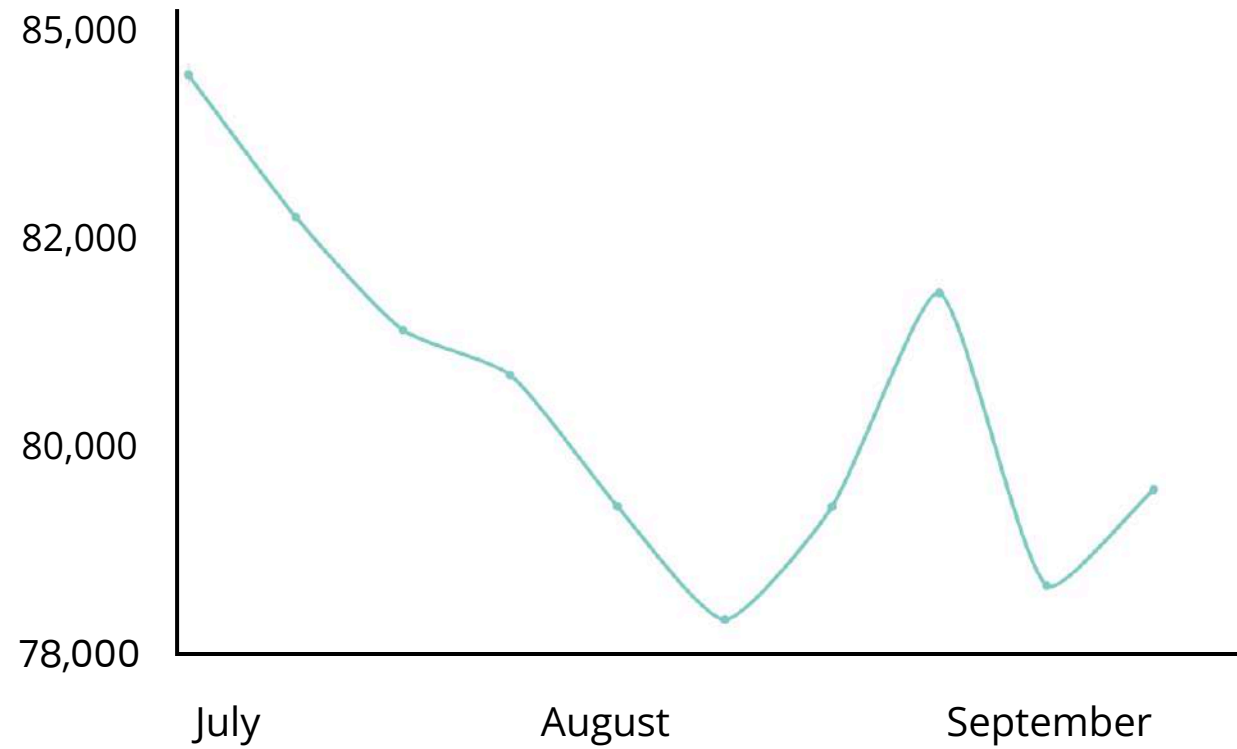
## ▶ China's Economic Shifts: From Trade Controls to Surging Markets

China's recent policies and market activities have been making waves. The country's new export controls on critical minerals are disrupting Western defense manufacturing, prompting suppliers to find alternative sources. At the same time, China's financial markets are seeing a surge in retail investor activity, with daily trading volumes exceeding **2 trillion** for 11 straight sessions and a **71%** year-over-year increase in new stock accounts in July. To address overcapacity and ongoing price wars, China is intensifying its anti-involution measures, particularly in sectors like steel, EVs, coal, and solar panels. To stimulate its economy, the government has introduced interest subsidies on loans, with individuals able to receive a 1-percentage-point annual interest subsidy on loans up to **¥50,000**. In a notable trade development, China's rare earth exports saw a 75% jump in July, reaching 5,577 tons, with the EU remaining the largest buyer at **2,140** tons.

## ▶ EU Trade: Tariffs and Trade-offs with China and the US

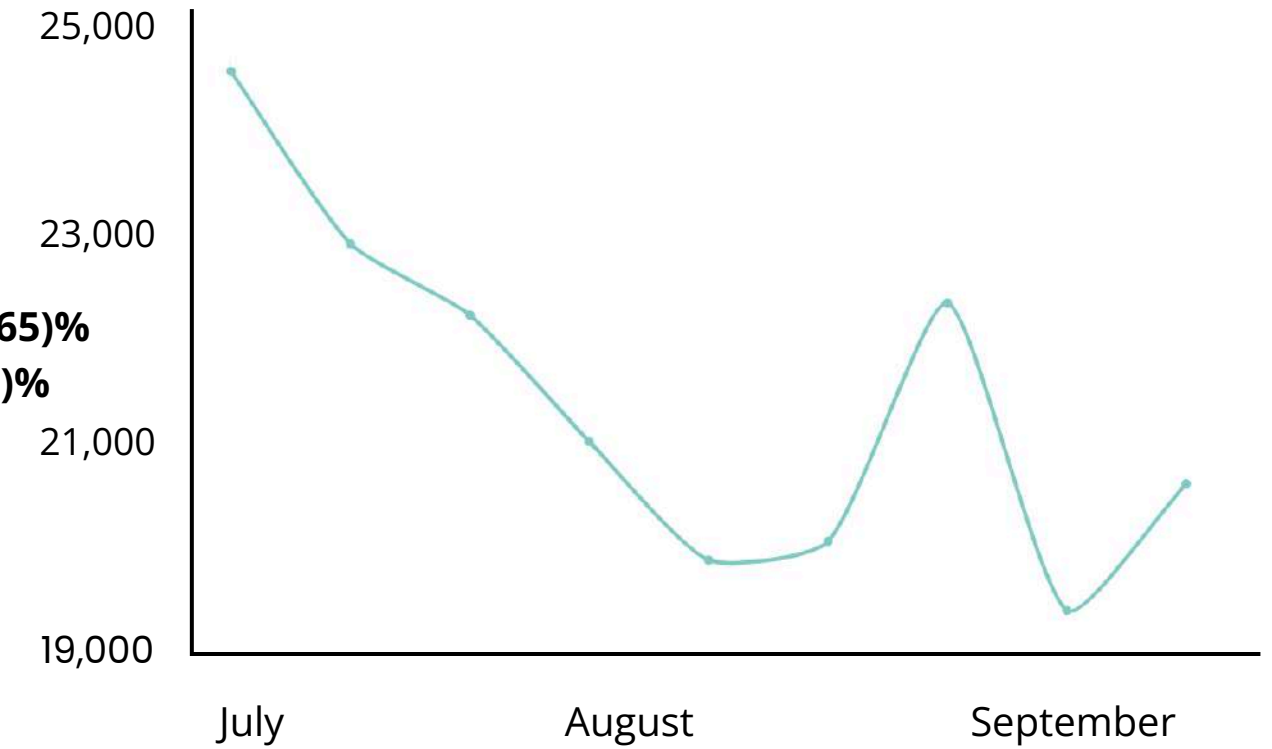
Recent trade news highlights shifting relationships between the EU, China, and the United States. In a move benefiting European producers, China has exempted 34 cognac brands from tariffs. Meanwhile, the U.S. continues to maintain a **15%** tariff on EU wines and spirits. However, there's positive news for the European automotive industry, as the U.S. has agreed to reduce its tariffs on EU-built cars from **27.5% to 15%**. This adjustment is expected to provide a significant boost to the European auto sector.

**MARKET HEATMAP: INDEX EDITION**



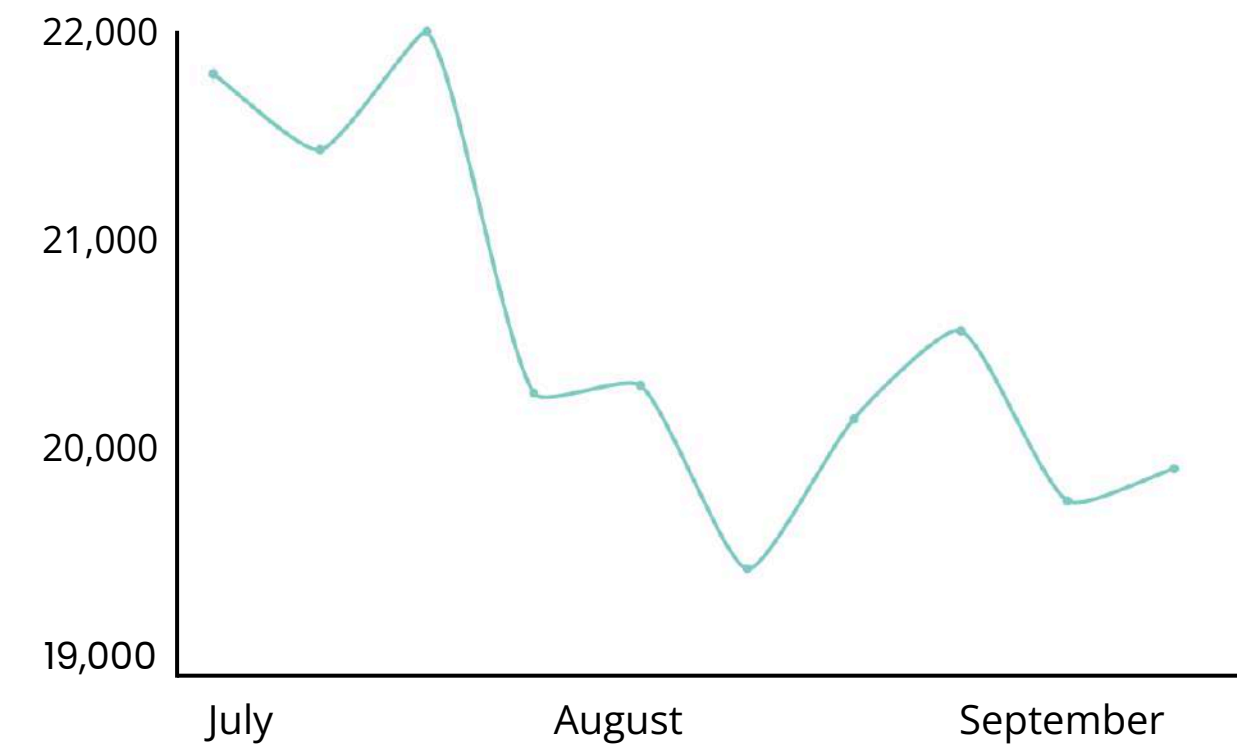
**SENSEX 30**

Last 1 year return - (-0.93%)  
 3months return - (-3.51%)  
 P/E - 22.3



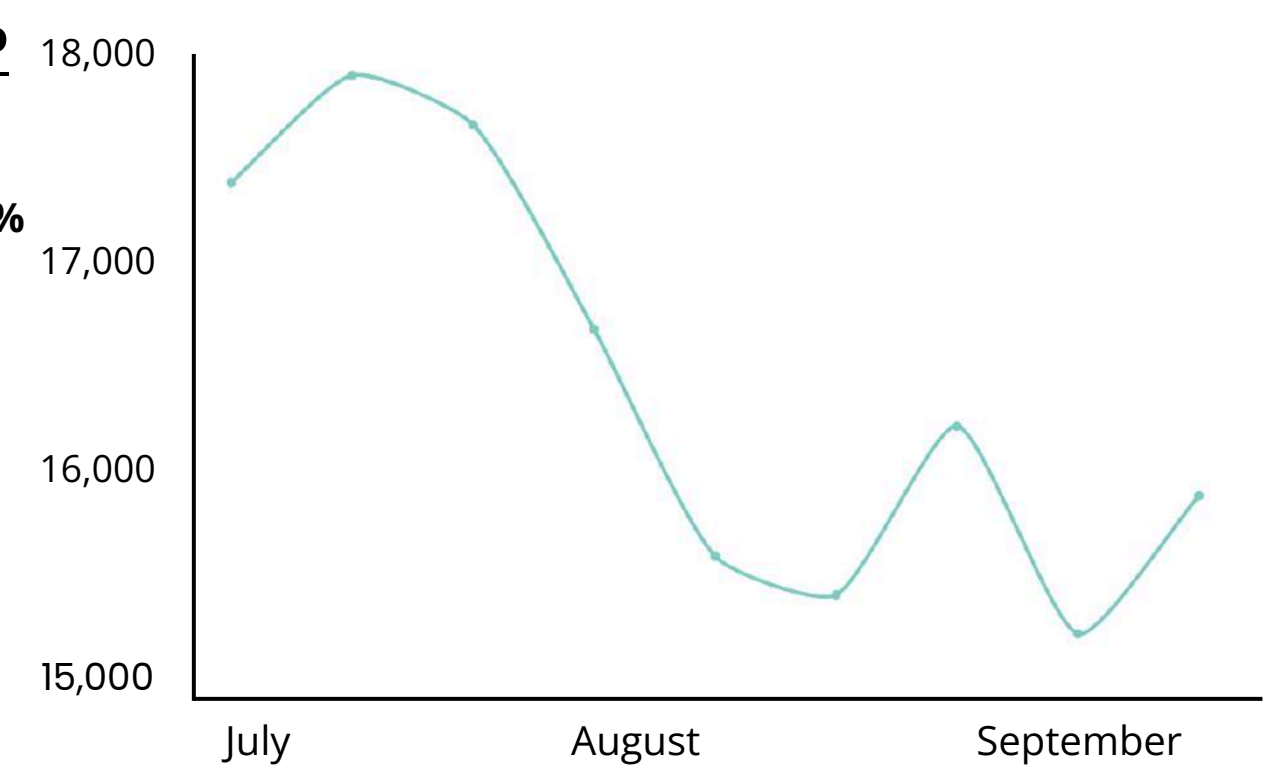
**NIFTY 50**

Last 1 year return - (-0.65%)  
 3 months return - (-2.93%)  
 P/E - 21.7



**NIFTY MID CAP 150 INDEX**

Last 1 year return - (-3.4%)  
 3months return - (-3.3%)  
 P/E - 32.8



**NIFTY SMALLCAP 250**

Last 1 year return - (-6.9%)  
 3months return - (-4.4%)  
 P/E - 32.3